

CONOCO, INC.

IBLA 83-31

Decided April 11, 1984

Appeal from decision of Wyoming State Office, Bureau of Land Management, denying request for consolidation of oil and gas leases W-30220 and W-80322.

Affirmed.

1. Oil and Gas Leases: Extensions--Oil and Gas Leases:  
Termination--Oil and Gas Leases: Unit and Cooperative Agreements

The partial commitment of lands within an oil and gas lease to a unit agreement segregates the lands in the lease into separate leases embracing those lands committed to the unit and those lands not unitized. The lease committed to the unit continues in effect for as long as committed provided that production is obtained within the unit prior to expiration of the term of the lease. Upon commitment and segregation of the non-producing portion of a producing oil and gas lease prior to expiration of its primary term or its extended term (other than by production), production on the non-unitized portion of the lease will not serve to extend the unitized portion.

2. Oil and Gas Leases: Generally

Departmental regulation 43 CFR 3105.6 provides that consolidation of leases may be approved if it is determined that there is sufficient justification. Where appellant has not shown that consolidation would be beneficial to the United States and has not offered any evidence to show that BLM abused its discretion in denying the consolidation, the denial of such request will be affirmed.

APPEARANCES: Ardith E. Rieke, for appellant.

# OPINION BY ADMINISTRATIVE JUDGE GRANT

Conoco, Inc. (Conoco), appeals from a decision of the Wyoming State Office, Bureau of Land Management (BLM), dated September 13, 1982, denying its request for consolidation of leases W-30220 and W-80322. BLM based its decision on the advice of the Minerals Management Service which objected to consolidation of the leases because Conoco had not shown that such consolidation would be advantageous to the United States.

Lease W-30220, containing 1,554.59 acres in Campbell County, Wyoming, was issued effective September 1, 1971, for a term of 10 years. <sup>1/</sup> By letter of October 19, 1981, BLM informed appellant that, based on information that actual drilling operations were in progress at the end of the primary term on lease W-30220, the lease was extended to August 31, 1983, pursuant to 43 CFR 3107.2-3.

On July 29, 1982, BLM issued a decision recognizing that part of the land in appellant's lease had been committed to the Dakota Wells Unit on

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<sup>1/</sup> The leased lands are described as follows:

"Township 44 North, Range 72 West, 6th Prin. Mer., WY

Sec 1: Lots 1, 2, 3, 4, S 1/2 N 1/2

Sec 2: Lot 1

Sec 11: NE 1/4 NE 1/4, SW 1/4 NE 1/4, NE 1/4 SE 1/4, W 1/2 SE 1/4

Sec 12: NW 1/4

Sec 13: E 1/2, E 1/2 W 1/2, W 1/2 NW 1/4, SW 1/4 SW 1/4

Sec 14: W 1/2 NE 1/4, SE 1/4 NE 1/4

Sec 25: N 1/2 NE 1/4, SE 1/4 NE 1/4"

The lease was originally issued to Kenneth S. Isaacs who assigned the lease to Conoco. BLM approved the assignment effective Dec. 1, 1971.

March 29, 1982, and was therefore segregated. The unitized land, consisting of 120 acres, is located in the N 1/2 NE 1/4, SE 1/4 NE 1/4, sec. 25, T. 44 N., R. 72 W., sixth principal meridian, Wyoming. BLM stated that the unitized portion of the lease retained serial number W-30220 while the segregated non-unitized portion received serial number W-80322. In its decision, BLM further stated that:

The unitized lease is extended by production; therefore, the non-unitized lease is extended for so long as oil or gas is produced in paying quantities under the unitized lease, or through March 29, 1984, if production ceases prior to that date on the unitized lease.

\*   \*   \*   \*   \*   \*   \*

Lease W 30220 is in a producing status and the lease account has been transferred to the Geological Survey, Casper, Wyoming. You will be notified at a later date regarding the rental and/or minimum royalty status of Lease W-80322.

By letter of August 16, 1982, appellant requested consolidation of leases W-30220 and W-80322. Appellant advised BLM that the parent lease, W-80322, is held by production from the Flocchini #33-11 well located on said lease and completed September 30, 1981. Therefore, appellant asserted that the segregated unitized portion of the lease (W-30220) is also held by such production and not by virtue of being in the unit. Appellant further noted that the well drilled on the Dakota Wells Unit is dry and that consequently the unit will terminate. Appellant asserted that because both leases are held by production and the unit is being terminated, the leases should be consolidated.

By decision of September 13, 1982, BLM denied appellant's request for consolidation pursuant to 43 CFR 3105.6. BLM explained that it had

incorrectly stated in its segregation decision of July 29, 1982, that lease W-30220 was extended by production, thereby extending W-80322 for so long as W-30220 was held by production. BLM held that W-30220 was not extended by production, but by drilling through August 31, 1983, prior to production being obtained. The decision further held that the termination date of the segregated unitized lease (W-30220) is thus August 31, 1983, subject to further 2-year extension upon termination of the Dakota Wells Unit prior to that date. Simultaneously, BLM issued a corrected segregation decision dated September 13, 1982, in which it held that lease W-80322 would continue in effect, unless relinquished, until March 29, 1984, and so long thereafter as oil or gas is produced in paying quantities. 43 CFR 3107.4-3.

On appeal, Conoco asserts that the Flocchini #33-11 well drilled in the NW 1/4 SE 1/4 of sec. 11 was spudded May 31, 1981, and completed September 10, 1981, as a producer on lease W-30220. Appellant argues that since production was obtained on the leasehold prior to segregation of the unitized portion of the lease on March 29, 1982, the unitized portion of the lease is held by production notwithstanding the segregation of the lease. On this ground, appellant contends consolidation would simplify lease administration and, consequently, be in the public interest.

Accordingly, this case involves the completion of a producing well on a lease in its extended term due to drilling over the termination date of the lease. The issue presented is whether the segregated lease committed to the unit, which lease is in its extended term by reason of drilling over the end of the primary term of the lease prior to unitization, is subject to further

extension by reason of production on the segregated lease not committed to the unit.

[1] Section 17(j) of the Mineral Leasing Act, as amended, 30 U.S.C. § 226(j) (1976), dealing with unit agreements, provides in pertinent part as follows:

Any other lease issued under any section of this chapter which has heretofore or may hereafter be committed to any such plan that contains a general provision for allocation of oil or gas shall continue in force and effect as to the land committed so long as the lease remains subject to the plan: Provided, That production is had in paying quantities under the plan prior to the expiration date of the term of such lease. Any lease heretofore or hereafter committed to any such plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization: Provided, however, That any such lease as to the nonunitized portion shall continue in force and effect for the term thereof but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities. [Emphasis in original.]

The clear language of this section mandates that a commitment of a portion of a lease to a unit effects segregation and there remains only the ministerial action by BLM to assign a new serial number to designate the segregated lease. Marathon Oil Co., 78 IBLA 102 (1983); American Resources Management Corp., 36 IBLA 157 (1978); 43 CFR 3107.4-3. The statute provides that the segregated lease embracing the lands committed to the unit remains in effect so long as the lease is committed to the unit provided that production is had prior to the expiration date of the lease. The expiration date of lease W-30220 at the time of its partial commitment to the unit (March 29, 1982) was August 31, 1983, which date was the end of the statutory 2-year

extension created by drilling over the end of the primary term of the lease. 30 U.S.C. § 226(e); 43 CFR 3107.2. Although the lease was subject to further extension by reason of the producing well thereon, August 31, 1983, was the termination date subject to further extension by production in paying quantities at that time. Where production has been obtained on a lease which is in its primary or extended term (other than by reason of production) at the time of commitment of the nonproducing portion of the lease to the unit, the lease is still a lease for a term of years and not a lease for an indefinite term governed by the life of production at the time of segregation by partial commitment. Solicitor's Opinion, M-36592 (Jan. 21, 1960).

Segregation means separating the original lease into distinct and different leases with one portion of the lease committed to a unit agreement and the other portion not committed. Since the portion of a lease inside the unitized area is segregated and is thus considered a separate lease, production outside the unit area will no longer be attributed to the unitized portion of the lease. Therefore, to maintain the unitized portion of a segregated lease past its extended term, the lessee must demonstrate adequate production on the lease or within the unit, independent of the production on the nonunitized portion. The theory behind this practice is that applying separate production requirements to each portion will encourage prompt development of the lease area in its entirety. See Solicitor's Opinion, 87 I.D. 616 (1980). Thus, the segregated lease committed to the unit was no longer subject to extension by production from the well in the segregated nonunitized portion of the lease. Solicitor's Opinion, M-36592 (Jan. 21, 1960); Cf. Husky Oil Company of Delaware, 5 IBLA 7, 79 I.D. 17 (1972) (partial commitment of leased lands embracing a producing well to a unit plan required payment of

annual rental for lands in segregated nonunitized lease no longer held by payment of royalty on production).

[2] 43 CFR 3105.6 provides that consolidation of leases may be approved if it is determined that there is sufficient justification. Therefore, it is within BLM's discretion as to whether or not leases should be consolidated. Minerals Management Service advised that the leases should not be consolidated because appellant has not shown that such consolidation would be beneficial to the United States. Conoco has offered no evidence to show that BLM abused its discretion in denying its request for consolidation.

Therefore, pursuant to the authority delegated to the Board of Land Appeals by the Secretary of the Interior, 43 CFR 4.1, the decision appealed from is affirmed.

C. Randall Grant, Jr.  
Administrative Judge

We concur:

Wm. Philip Horton  
Chief Administrative Judge

Edward W. Stuebing  
Administrative Judge

